
**Assistant Inspector General for Investigations
Defense Criminal Investigative Service
Annual Report for 1999**



**Office of the Inspector General
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FOREWORD

The 1999 Annual Report of the Defense Criminal Investigative Service is a tool used to demonstrate the accomplishments of the staff of DCIS during the prior year. It illustrates to our customers, the prosecutors and the public, the investigative capabilities and areas of emphasis of our organization.

This report accomplishes this task in an exemplary fashion. One aspect of the organization that cannot be inferred from the report is the dedication, devotion and professionalism of the individual staff members of the DCIS. Another aspect of the mission that is difficult to capture in writing is the complexity of the investigations described in the report. The complexity may be internal to the Department of Defense or external i.e. requiring knowledge of the intricate business systems of the contractor. Traditionally, the staff of the DCIS has never hesitated to overcome any such complexities in an effort to accomplish their mission.



The DCIS is a multifaceted organization specializing in the conduct of criminal investigations in the areas of health care fraud, procurement fraud, financial fraud and public corruption to name a few. I have the distinct pleasure of serving as the Director of this organization and thereby have frequent opportunities to interface with our clients, our elected leaders and the public in an effort to highlight and promote the many successes of this agency.

Please read on as the important information follows.

John F. Keenan
Director
Defense Criminal Investigative Service



MISSION AND JURISDICTION

1

ORGANIZATION

The Assistant Inspector General for Investigations, OIG, DoD, also serves as the Director, DCIS. The DCIS has a staff of approximately 325 special agents and 98 support personnel. The DCIS Headquarters is located in Arlington, VA, and has 6 field offices (FOs) covering the continental United States, Hawaii and Germany. The FOs have subordinate resident agencies and posts of duty that are located in close proximity to DoD facilities or where DoD contracting occurs. The headquarters components consist of the Investigative Operations Directorate, and the Program Review Directorate, which includes the DoD Hotline.

AREAS OF SPECIAL EMPHASIS

This section summarizes the significant activities and joint proactive efforts to combat fraud in the evolving DoD community.

Defense Finance and Accounting Service

DCIS has continued to work closely with the Defense Finance and Accounting Service (DFAS) Headquarters and field components in the areas of fraud referrals, internal procedures and training. These efforts have resulted in the creation of a standard DFAS Fraud Referral Form, a referral process and enhanced fraud awareness. As an active member of Operation Mongoose, DCIS has been a primary force in the recovery of fraudulent retiree and annuitant payments. This partnership has also refocused attention on fraud in transportation pay and vendor pay. As DFAS works to streamline these pay processes, DCIS keeps abreast of the changes and seeks to identify how the new systems may be fraudulently compromised. DCIS also works closely with DFAS to identify system control weaknesses and deficiencies before they are compromised.

Electronic Business

The emergence of electronic business/electronic commerce (EB/EC) within the DoD will impact the manner in which fraud investigations are conducted. The DCIS recognizing the need for fraud vulnerability assessments for DoD components involved in EB/EC formed the Defense Electronic Business Fraud Vulnerability Assessment Group. The purpose of this group is to serve as an open forum for member agencies to assess potential vulnerabilities within all aspects of DoD EB/EC processes. Additionally, this group provides and promotes EB/EC fraud awareness education and discusses solutions or possible courses of action for issues that arise during reviews, which appear to be high, risk for potential fraud.

Another initiative of the program was the establishment of the DCIS/Federal Bureau of Investigation Electronic Commerce Working Group for Federal Investigators. The purpose of this group is to provide a forum for sharing information and lessons learned regarding investigations in the EB/EC arena, as well as providing training. Coordination is underway with the DCIS Federal Law Enforcement Training Center representative to establish EB/EC fraud training for Federal agents.

Computer Intrusion Program



DCIS is responsible for investigating incidents of unauthorized access involving the Defense Information Infrastructure (DII). As a result of this recent tasking, DCIS created the Defense Information Infrastructure Intrusions Investigative Team (DI4T) which is composed of special agents and support personnel experienced in the technical aspects of computers. DI4T provides immediate criminal investigative response to suspected computer intrusions against the DoD; develops and disseminates criminal intelligence to assist in protecting the DII; coordinates with DoD and other Government agencies; and provides assistance in assessing, reporting and correcting vulnerabilities in the DII.

AREAS OF INVESTIGATION

DCIS is one of four Defense Criminal Investigative Organizations (DCIOs). The investigations conducted by DCIS primarily involve contract and procurement fraud, antitrust violations, bribery, corruption, large-scale thefts of government property, health care fraud and computer crimes. The other three DCIOs, the U.S. Army Criminal Investigation Command (USACIDC), the Naval Criminal Investigative Service (NCIS) and the Air Force Office of Special Investigations (AFOSI), also investigate fraud and computer crimes. The AFOSI and NCIS also conduct counterintelligence investigations and operations. This section summarizes some of the significant fraud cases, convictions and recoveries of the past fiscal year. It is important to note the cases that were conducted jointly with other agencies, both DoD and non-DoD.

Product Substitution

The introduction of counterfeit material and other forms of unauthorized product substitution into the procurement system has historically been and continues to be DCIS' highest priority for deterrence, investigation and prosecution. Product substitution investigations have always comprised a major part of the DCIS case inventory. An area of increased emphasis is readiness enhancement through vigorous detection and investigation of defective or substituted products that involve either safety of flight issues or have a critical application to military readiness.

● David M. Mitchell, co-owner and president of Campbell M. Industries, Incorporated, Stockton, CA, was sentenced to 42 months confinement, followed by 36 months probation, ordered to pay \$276,969 in restitution to the DoD and to pay a \$4,100 special assessment. An investigation disclosed Mitchell fraudulently provided surplus aircraft parts on 21 DoD small purchase contracts and portrayed the surplus parts as new. Mitchell received the contract awards based on his electronically submitted bids and false certifications that he provided factory-new, non-surplus parts. Mitchell's scheme included directing his employees to fill the purchase orders with surplus parts located on the Inventory Locator Service, having the parts repackaged, falsifying documentation about the origin of the parts and then shipping the parts via United Parcel Service to the required DoD delivery point. (DCIS/FBI)



● RGA Labs, Incorporated (RGA), Torrance, CA, was sentenced to pay a criminal fine of \$500,000, criminal restitution of \$1.2 million, a \$300 special assessment and was put on probation for a period of 5 years for allegedly making false claims to the DoD and to the National Aeronautics and Space Administration (NASA). The RGA specializes in testing electronic components, such as semiconductors and integrated circuits used in high reliability applications such as military weapon systems and space application hardware. An investigation disclosed RGA falsely certified required testing had been performed when, in fact, testing was performed improperly or not at all. In many instances, RGA's test equipment was broken or the equipment did not exist to perform

the testing. In addition, RGA certified parts that had failed previous testing. (DCIS/NASA/Defense Logistics Agency (DLA))

Contract Accounting Fraud

DCIS investigations of contract accounting fraud in DoD contracts, and in particular cost mischarging and defective pricing cases, are labor intensive, long-term and among the most complex types of fraud investigations. The DCIS is currently investigating over 400 cases in the contract accounting fraud area to include defective pricing, cost mischarging and other types of contract fraud schemes, many of which involve DoD "Top 100" contractors. With the advent of Electronic Commerce and Electronic Data Interchange new cases involving fraud are evolving in the electronic area.

- Textron, Incorporated, and the Aerostructures Corporation, formerly Textron Aerostructures (TA), entered into a \$9.8 million



civil settlement agreement with the Government. The agreement, previously sealed, settles allegations of fraud in the construction of wings for the Air Force B1-B bomber. The Federal lawsuit alleged that TA, a former Textron subsidiary in Nashville, TN, defrauded the Government by inflating labor costs in its proposals for two subcontracts for the production of 82 wing sets for the B1-B bomber. The TA was found to have fraudulently withheld information from negotiators regarding significant reductions in projected labor costs for the

production of the wings. The settlement was the result of a *qui tam* suit filed under the Civil False Claims Act by a retired TA employee. The relator in this case received more than \$1.7 million from the proceeds of the Government's recovery.

(DCIS/AFOSI/Defense Contract Audit Agency (DCAA))

- A \$3 million civil settlement was reached between the Government and Baker & Taylor, Incorporated (B&T), Charlotte, NC. B&T, a nationwide book wholesaler and distributor, allegedly devised a scheme to defraud its customers by deliberately overcharging for "trade books" and by manipulating discount levels in ways inconsistent with its contractual obligations. B&T negotiated master pricing contracts in which it agreed to sell certain categories of books at specified discounts from the

publisher's suggested retail price. B&T knew at the time it entered into the contracts with the Government, State schools and public libraries that the representations and promises made about the level of discount the customers would receive were false. The scheme was carried out by systematically miscategorizing certain trade books as non-trade books, subject only to "short or net discounts." (DCIS/DCAA)

- The Clark Equipment Company (Clark) of South Bend, IN, a wholly owned subsidiary of Ingersoll-Rand Company, Woodcliff,



NJ, paid a \$3 million civil settlement to resolve issues brought in a *qui tam* complaint. The Government received \$2.4 million of the settlement. Clark allegedly failed to disclose correct, accurate and complete discount scheduling and marketing data information to the Government. Clark allegedly defrauded the General Services Administration and its customers, including the DLA, by concealing the cost and pricing data that would have resulted in lower prices for equipment purchased from Clark. (DCIS)

- A \$450,000 civil settlement was reached between the Government and Bell Helicopter Textron, Incorporated (BHTI), Hurst, TX, resulting from allegations that, between 1989 and 1994, BHTI used substandard, nonconforming and falsely certified raw materials in its manufacturing of Navy aircraft. (DCIS/NCIS/USACIDC)

- A \$300,000 civil settlement was reached between the Government and Garjak Research, Incorporated, and Garjak International, Incorporated, San Diego, CA. The contractor allegedly knowingly made falsely inflated labor cost claims in connection with the development of a computer simulation program. The program, known as the Combat Base Assessment Module, was contracted for by the U.S. Air Force, while the contractor also held contracts with the Defense Nuclear Agency. (DCIS/AFOSI/Internal Revenue Service (IRS))

- Litton Applied Technology Division and Litton Systems Canada, Limited, pled guilty to conspiracy to defraud the Government, false statements and mail fraud. Litton allegedly failed to disclose the use of foreign sales representatives who received prohibited commissions on the sale of Litton Defense articles. The prohibited commissions were later charged to Litton's

foreign military sales and foreign military funded contracts. As a result of the guilty plea, Litton agreed to pay the Government \$18.5 million in criminal fines. (DCIS/NCIS/FBI/IRS)

- Mission Research Corporation (MRC) of Albuquerque, NM, agreed to pay \$500,000 in a civil settlement to resolve issues relating to alleged inappropriate lease costs charged to the Government. This investigation was based on information received from the DCAA during an audit of lease costs incurred by MRC. The MRC performed DoD research related to electro-magnetic pulse, nuclear efforts and plasma sciences. (DCIS/DCAA)

Defense Reutilization & Marketing Service

Under the direction of the DLA, the Defense Reutilization and Marketing Service accomplishes the integrated management of property disposal operations worldwide, including reutilization of serviceable assets in support of the military Services and other authorized customers. The Defense drawdown and base closure and realignment process has resulted in increased disposal and transfer of excess Military equipment. Most of the equipment has significant resale value, and the volume and value of the equipment creates a potential for corruption. DCIS aggressively pursues all information related to the unlawful disposal of Defense related supplies and equipment. These investigations involve numerous offenses including major theft, public corruption, kickbacks, U.S. Customs violations, antitrust and false statements by recipients of the equipment.



- Jet Reclamation, Incorporated (Jet), Bulverde, TX, John William Riddle, president of Jet, and Farrell Herbert Sutton, chief financial officer for Jet, were sentenced for conspiring to knowingly receive stolen Government property. Jet was sentenced to a \$52,000 fine and assessment. Riddle and Sutton were each sentenced to 24 months incarceration (followed by 1 year of supervised probation) and to pay \$113,225 restitution to the Government.

Between 1995 and 1998, Riddle and Sutton engaged in a scheme to steal aircraft parts from the Defense Reutilization and Marketing Office and the DLA facilities located at Kelly AFB, San Antonio, TX. The aircraft parts most sought by Riddle and Sutton were T-

56 engine parts, which are used on the C-130 military aircraft or the 501 commercial aircraft engine. (DCIS/AFOSI/FBI/IRS/U.S. Customs/DLA/San Antonio Police Dept.)

- An investigation was initiated regarding the alleged diversion of military equipment by military museums. Inspectors from the U.S. Army Tank-Automotive and Armament Command, Warren, MI, reported that they could not locate the Illinois Military Museum,



Greenup, IL, nor military equipment provided to the museum under the Army's Conditional Deed of Gift Program. The Illinois Military Museum was issued an M60A1 tank, two M60A3TTS tanks, two M114 Armored Personnel Carriers, two M42 Dusters, two Iraqi cargo trucks, one 25mm Japanese gun, one mortar and one Mercedes truck. The investigation revealed that the museum did not exist and that the property had been diverted to private individuals over a three-state area. As a result, the deeds of gift were revoked and the military property, valued at more

than \$1.9 million, was recovered and returned to the Government. (DCIS/USACIDC)

Health Care Fraud

DCIS has the responsibility for national health care fraud investigations involving programs administered by the Assistant Secretary of Defense (Health Affairs). The programs provide health care to active duty dependents, retired military personnel and their dependents, and survivors of military personnel through a health insurance program formerly known as the Civilian Health and Medical Program of the Uniformed Services (CHAMPUS), now known as TRICARE.

Under TRICARE, the military treatment facility (MTF) commander contracts with local health care providers and medical facilities for health care of active duty and retired Service members and their families who cannot be treated at the MTF in the area. Managed care is a comprehensive approach to health care delivery that encompasses planning, education, monitoring, coordinating and controlling quality, access and cost while considering the interests of patients, providers and payers. The goal is to provide quality, accessible health care through both military facilities and civilian resources at less cost to the Government.



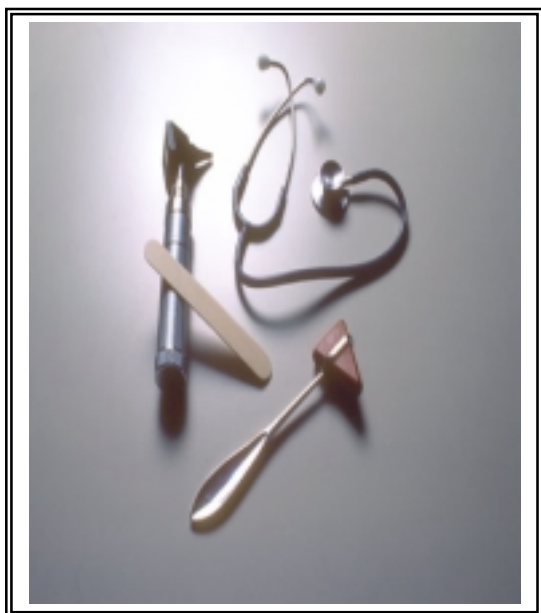
Several years ago, realizing the need to establish better working relationships among the health care service agencies and the health care fraud investigative agencies, DCIS organized Project '95, a health care fraud conference. The participants in Project '95 included officials from Health Affairs, CHAMPUS, Federal, state and local law enforcement, Department of Justice attorneys and fiscal intermediary representatives. As a result of Project '95 accomplishments, the DCIS initiated

numerous health care fraud projects designed to identify various schemes used to defraud Federal and private health care agencies. The projects have generated separate investigations resulting in numerous criminal indictments. Some of the significant projects to identify various schemes are depicted below.

- As a result of an investigation in connection with a *qui tam* suit, a \$7,742,564 settlement was reached between the Government and the Chapter 11 trustee for the National Recovery Institute Group (NRIG), Boca Raton, FL. The suit alleged that NRIG, a drug and alcohol abuse clinic, billed TRICARE, Medicare and Medicaid for services not rendered in accordance with program requirements and for services that were not medically necessary. (DCIS)
- A \$1.2 million civil settlement was reached between the Government and VNA Plus, Lenexa, KS, a durable medical equipment provider, to resolve allegations that included double billing, billing for services not rendered and altered billings. (DCIS/Health and Human Services (HHS))
- Investigation of a *qui tam* complaint resulted in a \$51 million civil settlement by Kimberly Home Healthcare, Incorporated, of Miami, FL (Kimberly), a subsidiary of Olsten Health Management Corporation. Kimberly pled guilty in U.S. District Courts in Atlanta, Miami and Tampa to one-count information charging Kimberly with mail fraud, conspiracy and receiving kickbacks. The information charged that Kimberly knowingly assisted the Columbia Healthcare Corporation in the preparation and filing of false cost reports with the Government with respect to home health care. In addition to the civil settlement, the corporation was sentenced to pay criminal fines totaling \$10,080,000. (DCIS/FBI/DCAA)



- Genentech, Incorporated, of San Francisco, CA, was sentenced to pay the Government a total amount of \$50 million to resolve issues relating to the introduction of misbranded drugs in interstate commerce. Genentech admitted that between 1985 and 1994, it aggressively marketed the synthetic hormone Protopin, one of its most lucrative prescription drugs, for various medical conditions for which the drug had not received Food and Drug Administration (FDA) approval. During this time period, the FDA had approved the drug only for use against a rare growth disorder found in a small percentage of children. (DCIS, FBI, FDA)
- As a result of an investigation in connection with a *qui tam* suit, an \$863,711 civil settlement was reached between the Government and Sharp Memorial Hospital, San Diego, CA. The suit alleged that Sharp knowingly violated the False Claims Act by using the wrong diagnostic codes and the wrong diagnosis related groups in order to receive higher reimbursement for tests performed to identify pneumonia causing bacteria. (DCIS/HHS)
- A \$4,149,555 settlement agreement was reached between the Government and Nova Southeastern University, Incorporated, (Nova), Fort Lauderdale, FL. The settlement was a result of an investigation into allegations that Nova billed TRICARE, Medicare and Medicaid for psychological services purportedly provided by licensed therapists or physicians when, in fact, unlicensed student interns provided the services at issue. (DCIS)
- Dr. Mark Hoffman, an orthopedic surgeon from Conyers, GA, was sentenced to 24 months incarceration, 24 months supervised probation, \$739,694 in restitution and a \$150,000 fine for submitting false statements to the TRICARE and other insurance programs. His spouse, Jayne Hoffman, a nurse and the office manager, was sentenced to 6 months home confinement, 24 months supervised probation, a \$100,000 fine and 500 hours of community service. The Hoffmans operated the Rockdale Orthopedic Center from 1990 to 1998 and during that time they allegedly submitted claims that included double billing, billing for services not rendered and upcoded procedures. (DCIS/FBI)
- Dr. Samuel M. Green, owner of Green Medical Center (GMC), Vienna, VA, was sentenced to 27 months incarceration, 36 months supervised probation and to pay \$1,423,944 in restitution. Green's clinic specialized in preventive medicine, specifically weight loss



treatment, a treatment that is not covered by the insurance plans. Green allegedly submitted claims to insurance companies, including TRICARE, concealing the nature of his practice. During the investigation, it was also determined GMC billed for procedures or tests that were not performed, or were performed less expensively than those charged, and billed for psychotherapy sessions performed by unlicensed members of the GMC staff. (DCIS/FBI/Office of Personnel Management)

- Aberdeen Ambulance Service, Incorporated, Aberdeen, SD, and Carter B. Hall, its owner and president, were sentenced as follows: Hall, who previously pled guilty to four counts of engaging in money transactions in property derived from specified unlawful activity, was sentenced to 30

months confinement, 36 months of supervised release on each count, \$20,000 in fines and assessment; Hall and Aberdeen Ambulance, which had previously pled guilty to one count of wire fraud, were ordered to pay \$702,500 in restitution. In addition, Hall agreed to a lifetime debarment from Government contracting. The investigation determined Hall submitted false and inflated billings for reimbursement of ambulance services to Medicare, TRICARE and the State of South Dakota Medicaid Program. (DCIS/FBI/IRS)

Environmental Program

The Environmental Protection Agency (EPA) has primary jurisdiction for matters involving hazardous waste spills or other hazardous situations and environmental crimes. DCIS is responsible for investigating fraud in the DoD environmental programs, including contract fraud with regard to the removal, transport and disposal of hazardous material from DoD installations.

- A \$331,411 civil settlement was reached between the Government and Domestic Industries of Virginia, Incorporated, Chesapeake, VA, and its president, John C. Santoro, Jr., for allegedly submitting false claims in conjunction with supplying No. 5 burner oil to the Naval Weapons Station. The investigation revealed that the defendants submitted false claims for product that failed to meet required specifications of the Defense Fuel Supply Center contracts. The defendants substituted used and waste oil obtained at a much lower price for the burned oil required by the contract. The investigation also disclosed that the defendants



violated EPA regulations by operating a storage tank as a hazardous waste storage facility without a permit. (DCIS/NCIS/DCAA)

- James M. Hong, a former president and owner of the Avion Environmental Group, Incorporated (Avion), Richmond, VA, was sentenced to 3 years imprisonment, 1 year supervised release and to pay a \$1.3 million fine and assessment for alleged violation of the Federal Clean Water Act. The investigation disclosed that Hong, a DoD contractor, negligently caused the discharge of untreated wastewater from Avion's

facility into the Richmond wastewater treatment system, failed to provide adequate funding for Avion's filtration and treatment system and, finally, pressured his employees to process more wastewater with a nonfunctioning filtration system. (DCIS/EPA/FBI)

Contractor/Subcontractor Kickbacks and Bribery

Since the passage of the Anti-Kickback Act of 1986, the number of subcontractor kickback investigations in the DCIS inventory has increased dramatically. The initiation of this type of case, and the utilization of multi-agency, multi-disciplined task forces, has resulted in exposure of a significant problem in the area of kickbacks. The utilization of informants and undercover operations have been particularly successful in these cases and have uncovered culpable DoD and contractor employees. Investigations, undercover operations and technical support involving bribery and kickbacks are approved and coordinated through the Sensitive Operations and Technical Services Branch.

- Gilbert P. Wilson, a former Government sales representative for Canon USA, Incorporated, Itasca, IL, was sentenced to pay a \$1,000 fine and assessment for offering a gratuity to a public official. Wilson allegedly offered money to a DoD contracting specialist to influence the award of a DoD contract worth an estimated \$800,000. The contract was to be awarded under a project to electronically scan paper documents accumulated by the Defense Electronics Supply Center, Dayton, OH, into an electronic storage media. The contracting specialist reported the bribe attempt to authorities and the payment was never made. (DCIS)

- Robert Collins, a former port engineer for a Military Sealift Command (MSC) contractor, pled guilty to soliciting and receiving an unlawful gratuity. Collins was sentenced to 3 years supervised probation, 6 months home detention, 100 hours of community service, fined \$8,614.95 and a \$100 special assessment. As part of a national DCIS, FBI and NCIS undercover initiative into allegations of fraud and the payment of kickbacks and bribes in the maritime industry, Federal law enforcement agencies set up a fictitious ship management and repair company with offices in five port cities that openly sought the award of Government contracts to repair Government-owned vessels. The former contract port engineer oversaw the maintenance and operation of an MSC vessel in Norfolk, VA.



William Martin, a former GS-15 ship operations and maintenance officer with the Department of Transportation, Maritime Administration, also pled guilty to soliciting and receiving a gratuity. Martin was sentence to 36 months supervised

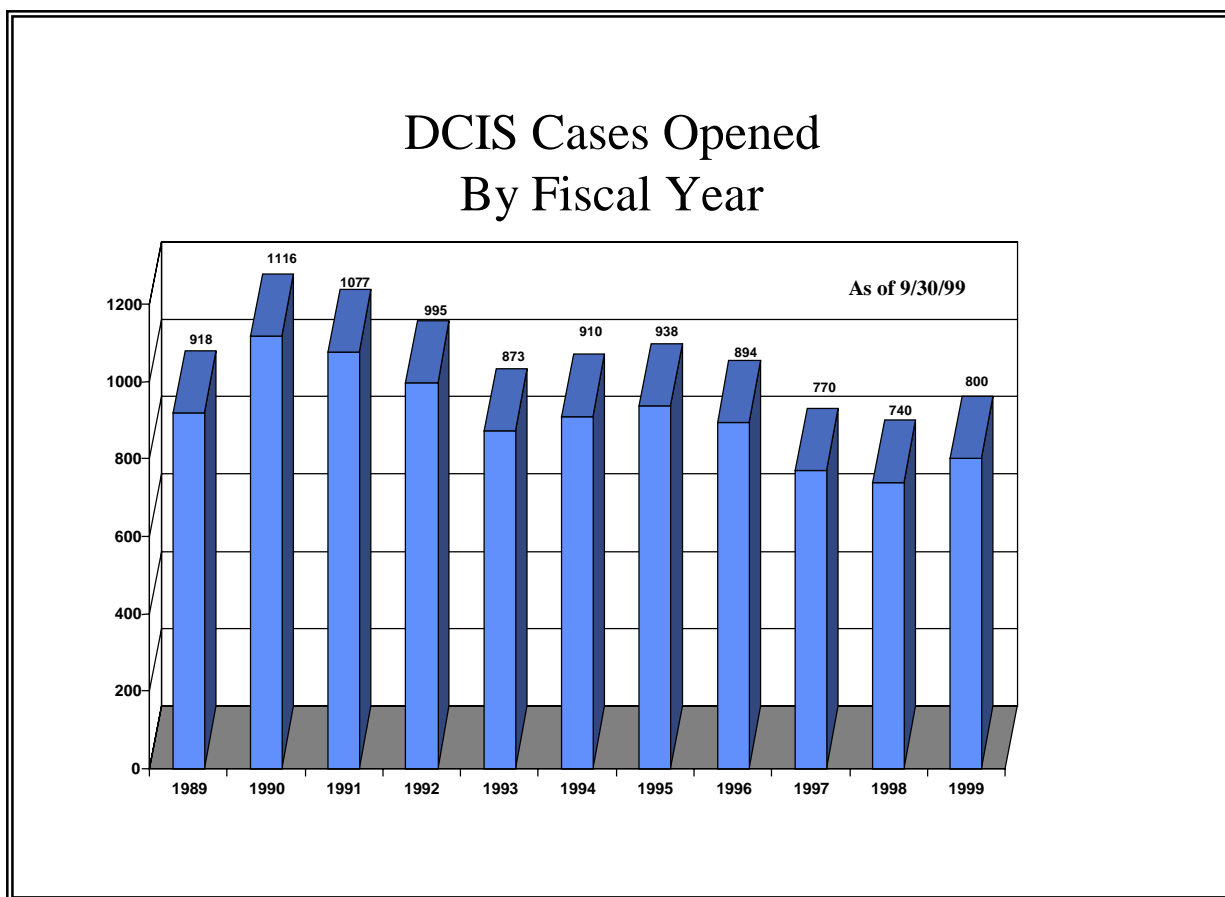
probation, 180 days home detention, pay \$11,360 restitution and a \$100 special assessment.

- Carl William Kruse, Jr., a general partner in Eastern Electric Company (Eastern), Hampton, VA, was sentenced to 24 months incarceration, followed by 3 years supervised probation; ordered to pay \$544,560 in restitution and a \$25,000 fine and assessment for allegedly providing kickbacks and gratuities. An investigation disclosed that between 1992 and 1997, Kruse made monetary payments and non-interest bearing loans to an officer of Systems Engineering & Energy Management Associates, Incorporated (SEEMA), Hampton, VA, in return for favorable treatment in connection with subcontracts for Eastern. While acting as the project manager for SEEMA on the Simplified Acquisition of Base Engineering Requirements (SABER) contract at Langley AFB, Kruse awarded all electrical subcontract work to Eastern, a company in which he was a partner. Kruse also provided gratuities to a Government official in charge of the SABER contracts. Larry Dennis, former president of SEEMA, was sentenced to 24 months incarceration, followed by 3 years supervised probation, a \$10,000

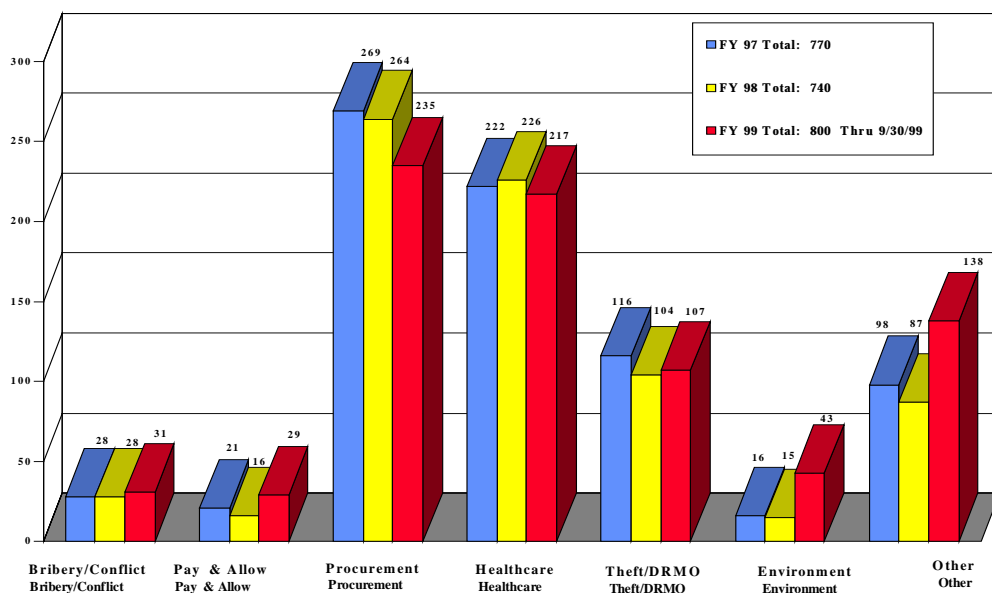
fine and was debarred from Government contracting for a period of 3 years. (DCIS/AFOSI/FBI/DCAA)

- Gino Garilli, a purchasing agent for Kaman Aerospace Corporation, Bloomfield, CT, was sentenced to 3 years probation, a \$15,000 fine and assessment for receiving kickbacks and income tax evasion. An investigation disclosed that Garilli illegally received kickbacks from Royce Aerospace Material Corporation (Royce), a former DoD subcontractor and supplier of raw materials such as aluminum and titanium. In return, Garilli provided Royce with the bidding information. Garilli failed to report the additional income on his tax returns. (DCIS/IRS)

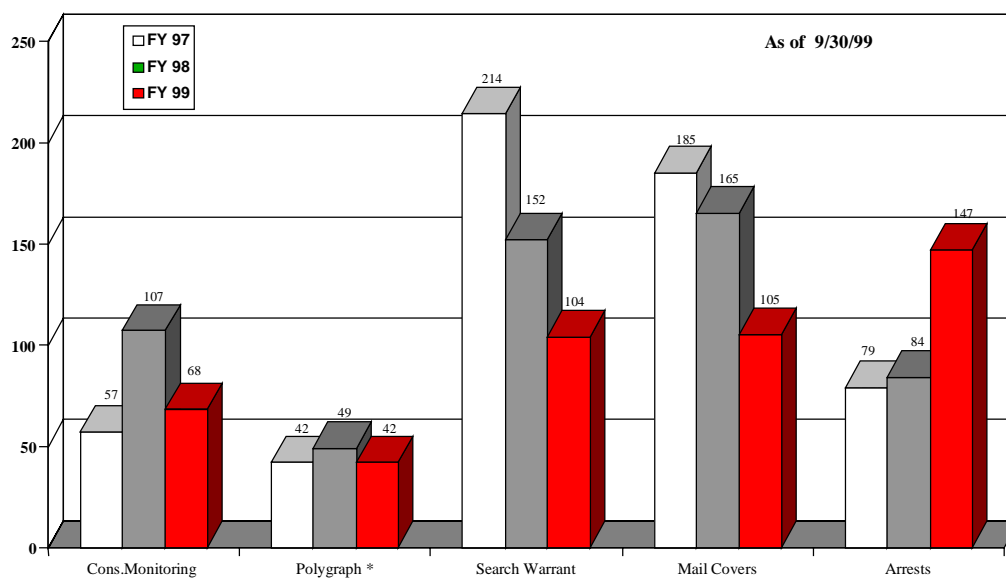
- Six individuals were convicted in connection with an investigation into allegations of bribery at McGuire AFB Commissary's meat department. The investigation disclosed that the meat vendors bribed the managers at the meat department, in exchange for favorable treatment while competing for commissary business. Two additional individuals are awaiting sentencing. (DCIS/AFOSI/FBI/IRS)



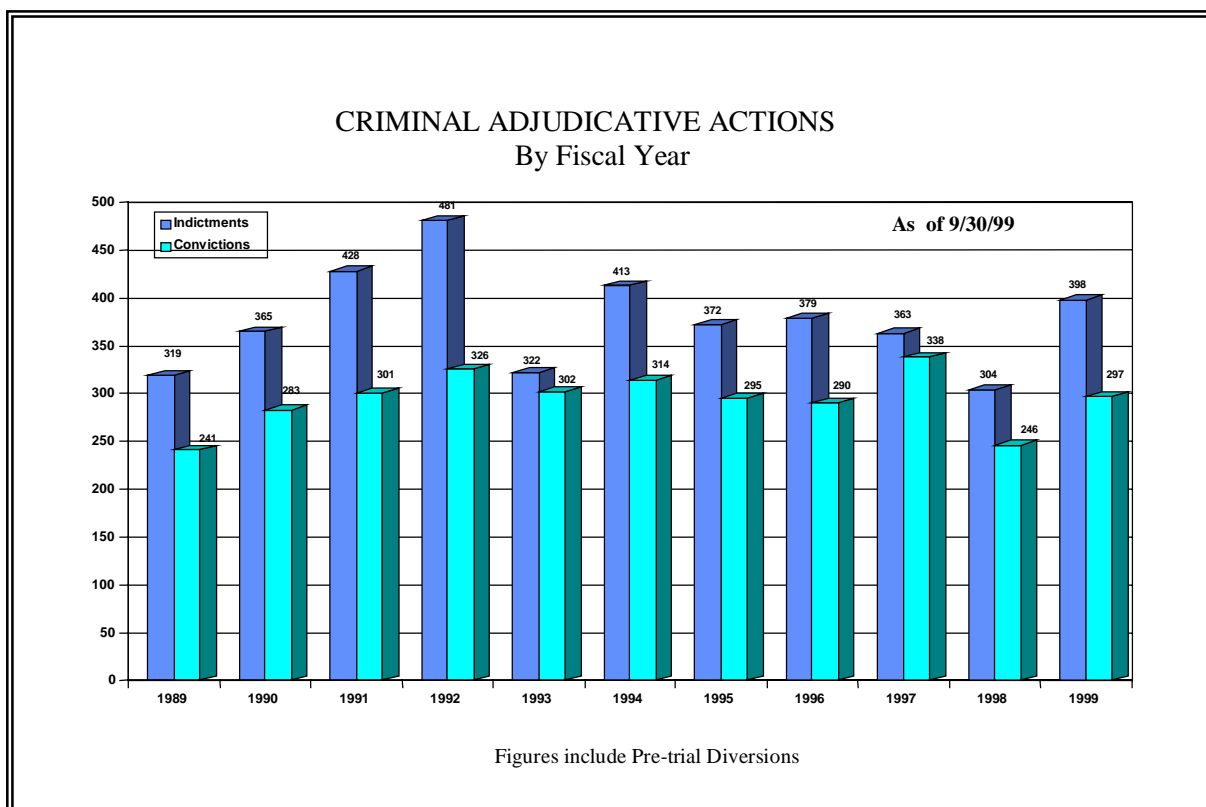
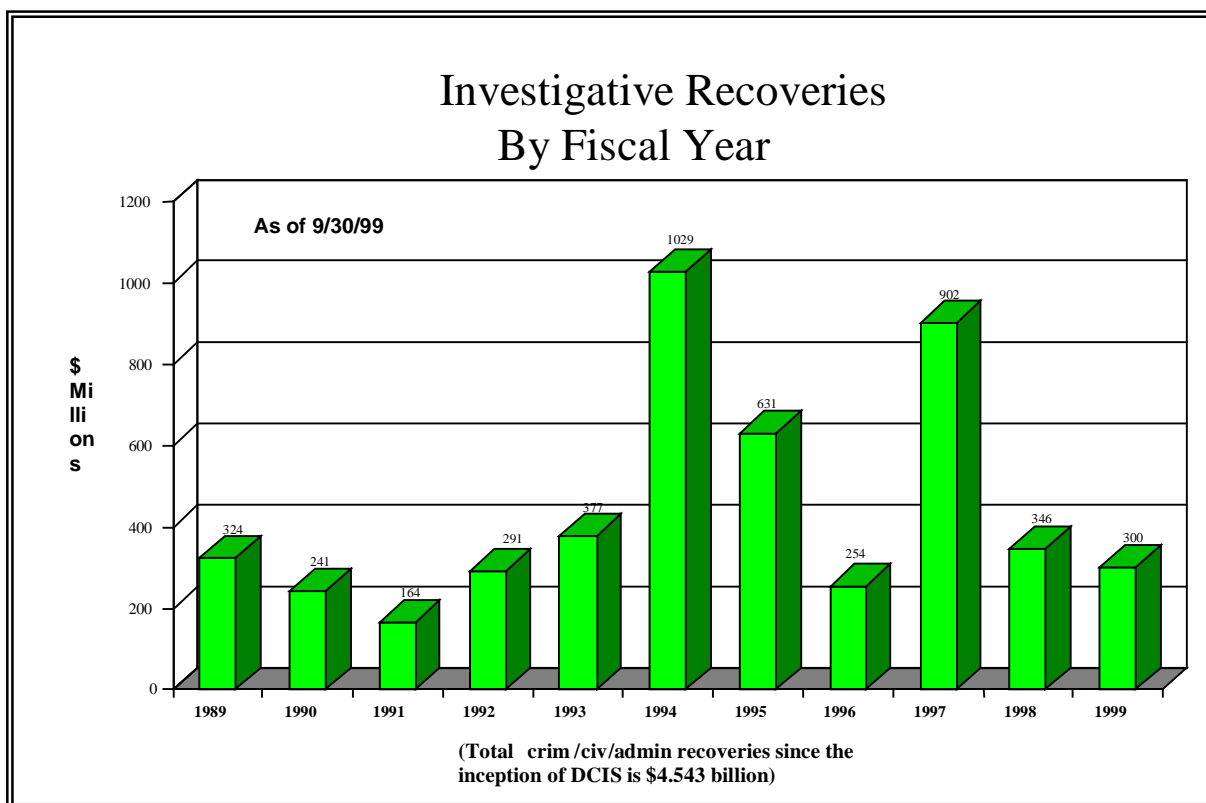
Opened Cases - All Categories By Fiscal Year



Investigative Techniques Utilized For DCIS Cases By Fiscal Year



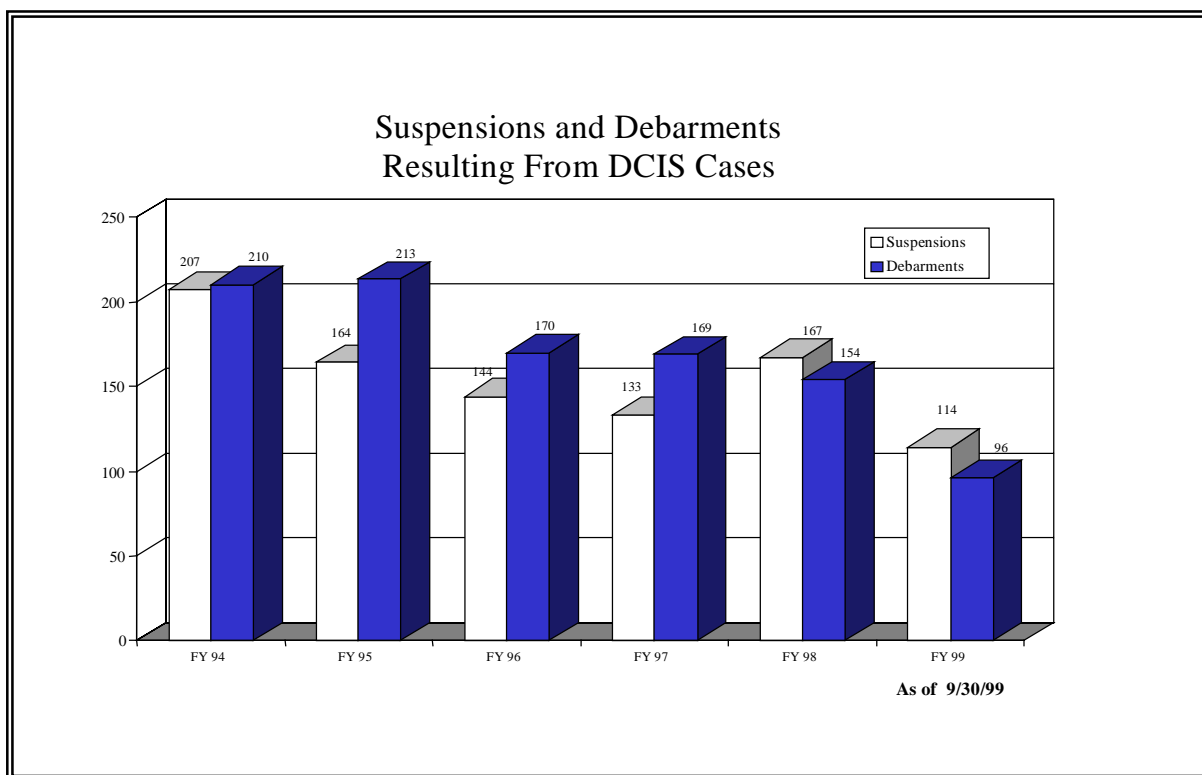
* Includes exams conducted by other agencies



COORDINATION OF REMEDIES

Under DoD Directive 7050.5, "Coordination of Remedies for Fraud and Corruption Related to Procurement Activities," DoD officials are responsible for the integrity of the DoD contracting and procurement system. DoD officials are required to take an immediate, coordinated approach to criminal, civil and administrative actions in combating fraud.

The Directive requires each Military Department and DoD Agency establish a central point of contact (CPOC) for the coordination of remedies in fraud and corruption cases. Information developed during significant fraud cases is shared with CPOCs within DoD Agencies and components and the Military Services. The CPOCs are provided with updates and findings on investigations to ensure coordination of remedies and initiation of suspension/debarment actions.



INTELLIGENCE SPECIAL PROGRAMS LIAISON OFFICE

As a part of the effort by the DoD IG to increase coverage of DoD intelligence programs, the DCIS Special Operations Program has increased liaison efforts within the intelligence community.

Additional investigative effort has been directed at the Defense Intelligence Agency, the National Security Agency and the National Reconnaissance Office. DCIS Special Operations has also worked closely with the Central Intelligence Agency on matters of mutual interest. Fraud awareness efforts have increased with the inclusion of a block of instruction in the Security for Special Programs course at the DoD Security Institute.

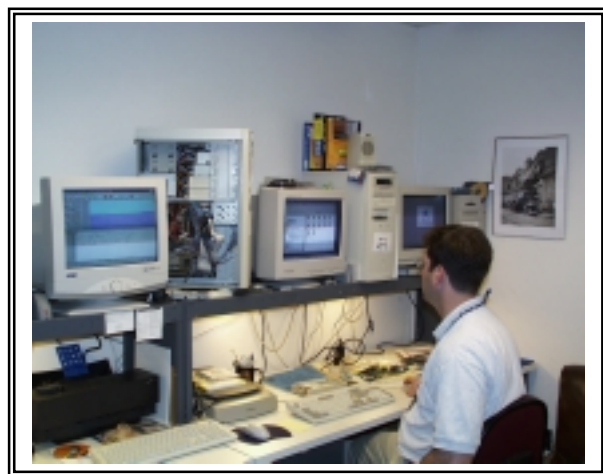
PSYCHOPHYSIOLOGICAL DETECTION OF DECEPTION PROGRAM



The DoD has adopted the term Psychophysiological Detection of Deception (PDD) to cover the process known as polygraph examination. The PDD instrument is a scientific, diagnostic instrument that graphically records physiological changes that take place in a person at a specific time. The PDD is administered in accordance with DoD Directive 5210.48 and DoD Regulation 5210.48R. Our polygraph instruments are constantly being upgraded to maintain state of the art technology. The DCIS polygraph program successfully passed a rigorous DoD Polygraph Institute inspection during April 98. DCIS has a

leadership role among Government polygraph programs. It is the only Government agency program that specializes in fraud examinations. DCIS examiners provide support to non-DoD Agencies, primarily within the IG community.

SEIZED COMPUTER EVIDENCE RECOVERY PROGRAM



As the use of computers at all levels of business proliferates, the likelihood of finding evidence of criminal activity on computers also continues to grow. Increasingly more and more business records are created and saved on computers. Some DCIS Special Agents are trained as Seized Computer Evidence Recovery Specialists (SCERS) to properly seize, protect, and analyze computer evidence. SCERS agents work closely with the primary case agent to ensure the computer searches are complete, thorough, and relevant to the matter being investigated. When needed, SCERS agents are prepared to testify as to their findings in court as experts in computer forensics. At present, DCIS has 17 SCERS trained agents and plans to train

additional SCERS as the number and complexity of computer searches continues to increase.

DCIS has recently taken on a major initiative investigating unauthorized intrusions into DoD computer networks, and agents are being trained to seize, protect, and analyze computer information on computers running variants of the Unix operating system popular with “hackers.” Also, as the DoD adopts Electronic Commerce as a means of doing business in a paperless environment, SCERS are aggressively training to stay at the forefront of computer network operating systems, network structures, data encryption, data transmission and data storage.

DEPARTMENT OF DEFENSE HOTLINE

**Office of the Inspector General,
Department of Defense
Hotline**

for reporting Fraud, Waste, and Abuse (FWA)

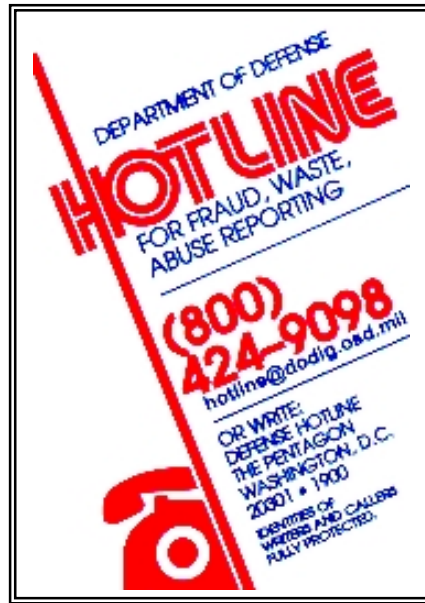
About the Hotline	What should be reported	FWA Complaints
Reprisal Complaints	Mental Health Referrals	Hotline Posters
Helpful Links	Glossary of Hotline Terms	Questions and Answers
OIG, DoD Homepage		

The DoD Hotline, a component of the DCIS, remains an important avenue for Military members, DoD employees, DoD contractor employees and the public for the reporting of fraud, waste and mismanagement affecting DoD programs and operations. During FY 99, the Hotline received **14,115** telephone calls and letters resulting in the initiation of **1,834** cases. During the same period, the Hotline closed **2,130** cases. The Hotline distributed **17,225**

Hotline posters and other Hotline informational materials to various DoD activities and DoD contractors in a continuing effort to promote use of the DoD Hotline. Since 1982, over **\$418** million has been recovered as a direct result of inquiries initiated in response to information provided to the Hotline.



- In response to a Hotline complaint, the OIG, DoD, audited a Defense contract involving maintenance and repair of the C-20 aircraft. The audit identified \$887,000, which can be realized from recouping unreasonable costs for past purchases of new parts. In addition, the Defense contractor is now purchasing new parts at a substantial reduction in price, with additional monetary savings of \$1.26 million over the life of the contract.
- Based on an anonymous complaint, a joint investigation was conducted by the FBI and DCIS with audit assistance provided by the Office of the Assistant Inspector General for Audit into allegations of accounting abuses by a Defense contractor. The audit identified altered labor reports to deliberately increase costs to the Government on follow-on contracts; double-billing the Government for engineering work; charging improper labor rates, and improper billing of commissions. As a result of settlement, the company controller pleaded guilty to submitting false claims and false statements to the Government, was fined a total of \$40,000, and debarred from Government contracting for a period of three years. The contractor agreed to pay the Government \$2.3 million.
- An ongoing DCIS Voluntary Disclosure investigation (supplemented by a subsequent Hotline referral) alleged that Honeywell, Inc., Joliet, IL, falsified ammunition test results, resulting in defective ammunition. The contractor agreed to a \$2.4 million civil settlement.
- As a result of a Hotline complaint, an investigation by the NCIS substantiated allegations that a U.S. Marine supply specialist was in possession of a helicopter blade valued at approximately \$9,000. The helicopter blade was subsequently seized by NCIS agents and returned to its appropriate command.
- A Hotline complaint investigated by the NCIS substantiated allegations of faulty aerial refueling stores (wing fuel tanks)



manufactured and sold to the U.S. Navy. The manufacturing contractor failed to advise the Government of test failures involving valves and cracks in the fuel/air fitting interface weld. Under the terms of the settlement, the company agreed to a contract modification to decrease the price of another Navy contract in the amount of \$786,000 by offset.

DIRECTORY OF DCIS OFFICES

CENTRAL FIELD OFFICE

1222 Spruce Street
Suite 8.308E
St. Louis, MO 63103-2811
Telephone: (314) 539-2172
Telefax: (314) 539-2967

CLEVELAND RESIDENT AGENCY

7550 Lucerne
Suite 200, Islander Park One Building
Middleburg Heights, OH 44130-6503
Telephone: (216) 522-2296/7
Telefax: (216) 522-7196

COLUMBUS RESIDENT AGENCY

P.O. Box 13163, Whitehall Branch
Columbus, OH 43213-0163
Telephone: (614) 692-3629
Telefax: (614) 692-5747

DAYTON RESIDENT AGENCY

3055 Kettering Boulevard, Suite 205
Dayton, OH 45439
Telephone: (937) 534-0100
Telefax: (937) 534-0116

KANSAS CITY RESIDENT AGENCY

Federal Building
500 State Avenue, Suite 565
Kansas City, KS 66101-2433
Telephone: (913) 551-1350
Telefax: (913) 551-1362

CHICAGO POST OF DUTY

2350 E. Devon Avenue, Suite 150, Box 483
Des Plaines, IL 60018-4606
Telephone: (847) 827-9480
Telefax: (847) 827-3724

INDIANAPOLIS POST OF DUTY

ATTENTION: Column 117W
8899 East 56th Street
Indianapolis, IN 46249-4500
Telephone: (317) 510-4009/10
Telefax: (317) 510-4012

MILWAUKEE POST OF DUTY

6101 W. Wisconsin Ave. Room M-90
Milwaukee, WI 53210
Telephone: (414) 297-1810
Telefax: (414) 297-1817

MINNEAPOLIS POST OF DUTY

Galtier Plaza
Box 14, Suite 414, 175 East Fifth Street
St. Paul, MN 551012901
Telephone: (651) 222-0212
Telefax: (651) 222-8316

SIOUX FALLS POST OF DUTY

C/O U.S. Attorney's Office
230 S. Phillips St., Suite 404
Sioux Falls, SD 57102
Telephone: (605) 330-4211
Telefax: (605) 330-4212

WICHITA POST OF DUTY

53456 Lawrence Court, Suite 230
McConnell AFB, KS 67221-3515
Telephone: (316) 682-1991
Telefax: (316) 682-1609

MID-ATLANTIC FIELD OFFICE

Suite 712
1111 Jefferson Davis Highway
Arlington, VA 22202-4306
Telephone: (703) 604-8439/40
Telefax: (703) 604-8442

NORFOLK RESIDENT AGENCY

Federal Building
200 Granby Street, Room 412
Norfolk, VA 23510-1811
Telephone: (757) 441-3412
Telefax: (757) 626-1891

BALTIMORE POST OF DUTY

8441 Belair Road, Room 204
Baltimore, MD 21236-3020
Telephone: (410) 529-9054
Telefax: (410) 529-9052

RICHMOND POST OF DUTY

Centre Court One, Suite C
9401 Courthouse Road
Chesterfield, VA 23832-6666
Telephone: (804) 748-2055
Telefax: (804) 748-5327

WIESBADEN POST OF DUTY

DOD IG, DCIS
Unit 29263, Box 3000, APO AE 09096
Telephone: 011-49-611-3807526
Telefax: 011-49-611-3807421

NORTHEAST FIELD OFFICE

Tinicum Industrial Park
10 Industrial Highway, Building G,
Mailstop #75
Lester, PA 19113
Telephone: (610) 595-1900
Telefax: (610) 595-1934

BOSTON RESIDENT AGENCY

495 Summer Street, Room 327
Boston, MA 02210-2109
Telephone: (617) 753-3044
Telefax: (617) 753-4284

HARTFORD RESIDENT AGENCY

525 Brook St., Suite 205
Rocky Hill, CT 06067-0167
Telephone: (860) 721-7751
Telefax: (860) 721-6327

NEW JERSEY RESIDENT AGENCY

Wick Plaza 1, 100 Dey Place, Suite 102
Edison, NJ 08817-3700
Telephone: (732) 819-8455
Telefax: (732) 819-9430

NEW YORK RESIDENT AGENCY

One Huntington Quadrangle, Suite 2C01
Melville, NY 11747-4427
Telephone: (516) 420-4302
Telefax: (516) 420-4316

SYRACUSE RESIDENT AGENCY

441 South Salina Street
Suite 602
Syracuse, NY 13202-2400
Telephone: (315) 423-5019
Telefax: (315) 423-5099

PITTSBURGH POST OF DUTY

Moorhead Federal Building
1000 Liberty Avenue, Suite 1310
Pittsburgh, PA 15222-4004
Telephone: (412) 395-6931/6879/4616
Telefax: (412) 395-4557

SOUTHEAST FIELD OFFICE

2400 Herodian Way, Suite 420
Smyrna, GA 30080-8500
Telephone: (770) 916-9920/26
Telefax: (770) 916-9937

CHAPEL HILL RESIDENT AGENCY

Forum One, 1777 Fordham Blvd.
Suite 201
Chapel Hill, NC 27514-5809
Telephone: (919) 929-4744/4746
Telefax: (919) 967-4325

NEW ORLEANS RESIDENT AGENCY

636 Gause Boulevard, Suite 302
Slidell, LA 70458-2038
Telephone: (504) 641-0691
Telefax: (504) 641-0838

ORLANDO RESIDENT AGENCY

The Essex Building, Koger Complex
Suite 244, 3101 Maguire Boulevard
Orlando, FL 32803-3721
Telephone: (407) 895-2622
Telefax: (407) 895-2620

FORT LAUDERDALE POST OF DUTY

1451 W. Cypress Creek Road
Suite 201
Fort Lauderdale, FL 33309-1953
Telephone: (954) 202-9167
Telefax: (954) 202-9217

JACKSONVILLE POST OF DUTY

7820 Arlington Expressway, Suite 110
Jacksonville, FL 32211
Telephone: (904) 855-0991
Telefax: (904) 855-4078

NASHVILLE POST OF DUTY

Federal Building & Courthouse
801 Broadway, Suite 362
Nashville, TN 37203
Telephone: (615) 736-2930
Telefax: (615) 736-2939

PENSACOLA POST OF DUTY

One Eleventh Avenue
Suite E-1
Shalimar, FL 32579-1305
Telephone: (850) 651-6377
Telefax: (850) 651-6962

SOUTHWEST FIELD OFFICE

2201 North Collins, Suite 300
Arlington, TX 76011
Telephone: (817) 543-4350
Telefax: (817) 543-4365

DENVER RESIDENT AGENCY

56 Inverness Drive East, Suite 250
Englewood, CO 80112-5114
Telephone: (303) 799-8182
Telefax: (303) 799-8615

HOUSTON RESIDENT AGENCY

The Lyric Center
440 Louisiana Street, Suite 825
Houston, TX 77002
Telephone: (713) 227-7263
Telefax: (713) 236-8487

PHOENIX RESIDENT AGENCY

4000 North Central Avenue
Phoenix, AZ 85012
Telephone: (602) 277-7253/4
Telefax: (602) 277-9890

ALBUQUERQUE POST OF DUTY

4101 Jefferson Plaza, N.E., Room 123
Albuquerque, NM 87109
Telephone: (505) 342-4800
Telefax: (505) 342-4814

SALT LAKE CITY RESIDENT AGENCY

324 East 25th Street, Room 3100
Ogden, UT 84401
Telephone: (801) 625-5703
Telefax: (801) 625-5711

SAN ANTONIO POST OF DUTY

North Chase I
10127 Morocco Drive, Suite 250
San Antonio, TX 78216-3954
Telephone: (210) 366-1037
Telefax: (210) 366-4031

TULSA POST OF DUTY

6111 East Skelly Drive, Suite 422
Tulsa, OK 74135-6120
Telephone: (918) 581-6485
Telefax: (918) 581-6489

WESTERN FIELD OFFICE

26722 Plaza Street, Suite 130
Mission Viejo, CA 92691-6300
Telephone: (949) 643-4191/4433/4441
Telefax: (949) 643-4769

LONG BEACH RESIDENT AGENCY

501 W. Ocean Boulevard, Suite 7300
Long Beach, CA 90802-4222
Telephone: (562) 980-4242
Telefax: (562) 980-4249

SAN DIEGO RESIDENT AGENCY

7675 Dagget Street, Suite 360
San Diego, CA 92111-2241
Telephone: (858) 569-1510
Telefax: (858) 569-6401

SAN FRANCISCO RESIDENT AGENCY

1301 Clay Street, Suite 480N
Oakland, CA 94612-5217
Telephone: (510) 637-2965
Telefax: (510) 637-2972

SEATTLE RESIDENT AGENCY

1000 2nd Avenue, Suite 2950
Seattle, WA 98104-5025
Telephone: (206) 553-0700
Telefax: (206) 553-0057

WOODLAND HILLS RESIDENT AGENCY

21021 Ventura Blvd., Suite 321
Woodland Hills, CA 91364
Telephone: (818) 348-7925
Telefax: (818) 348-7943

HAWAII POST OF DUTY

300 Ala Moana Blvd., Suite 4307
Honolulu, HI 96850-0001
Telephone: (808) 541-2590
Telefax: (808) 541-3609

SACRAMENTO POST OF DUTY

2800 Cottage Way, Suite W-1942
Sacramento, CA 95825
Telephone: (916) 978-5126
Telefax: (916) 978-5291

SEASIDE DAY OFFICE

DOD Center, Monterey Bay
400 Giggling Road, Room 8004
Seaside, CA 93955
Telephone: (831) 583-2361
Telefax: (831) 583-2385

SUNNYVALE DAY OFFICE

C/O NASA AMES Research Center
Office of the Inspector General
Mail Stop 204-11
Moffett Field, CA 94035-1000
Telephone: (650) 604-2670
Telefax: (650) 604-3955